CION INVESTMENTS

CION Credit Market Update – April 30, 2021

The Once-In-A-Generation Economy

With Stimulus Jumpstarting GDP, Eyes Turn to Infrastructure

Consumers used a large portion of the additional cash inflow provided by the March stimulus to pay down debt and increase their savings. The New York Federal Reserve surveyed consumers early in the month and found that consumers saved 42% of their stimulus dollars. Even though the Fed reports that less than 25% of the stimulus was spent, the spending had an impact.

The Commerce Department reported retail sales surged 9.8% in March, almost double what analysts expected. At the same time, reopenings had a very positive impact on jobless numbers, with the Department of Labor reporting that for the week ending April 10, the seasonally adjusted initial jobless claims of 576,000 were the lowest level of initial claims since March 14, 2020.

Since 70% of U.S. GDP is consumer spending, increasing jobs numbers and consumers with full wallets translated into upgraded projections of GDP growth. The IMF is now predicting the U.S. will see GDP growth of 6.4% in 2021.

All of this is before the prospect of the proposed $1.9 trillion American Jobs Plan. While negotiations are of course ongoing, and the final shape of plan is unknown, the broad strokes of the plan released so far touch on almost every industry and part of life.

The Federal Reserve again reiterated its long-standing pledge to maintain the target federal funds rate at 0%-0.25%, with the April statement citing "the ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain."

At the same time, the statement acknowledged that "indicators of economic activity and employment have strengthened." The Fed also stated that inflation will run hotter, but it maintained the assertion that increased inflation will be transitory.

The combined impact of expectations of a booming economy for years to come, as well as rising inflation that will go unchecked for some period of time, meant that inflation continued to weigh on fixed income sectors. While performance for April reversed the negative trend of the first quarter and was positive across all sectors, year-to-date numbers are still negative, with the exception of municipals.

The Threat of the Taper Tantrum

Federal Reserve Chairman Powell has said the Fed would not begin to taper its $120 billion monthly program of asset purchases until there has been "substantial further progress" in achieving full employment and a long-term average of 2% inflation. Powell has memorably described it as being even too early to begin "talking about talking about" tapering. Many economists believe, based on Powell's tone, that the moment for the pre-conversation is most likely late summer. However, the Dallas Fed President Robert Kaplan seems to hold a different view and has stated that he believes the conversation should start "at the earliest opportunity."

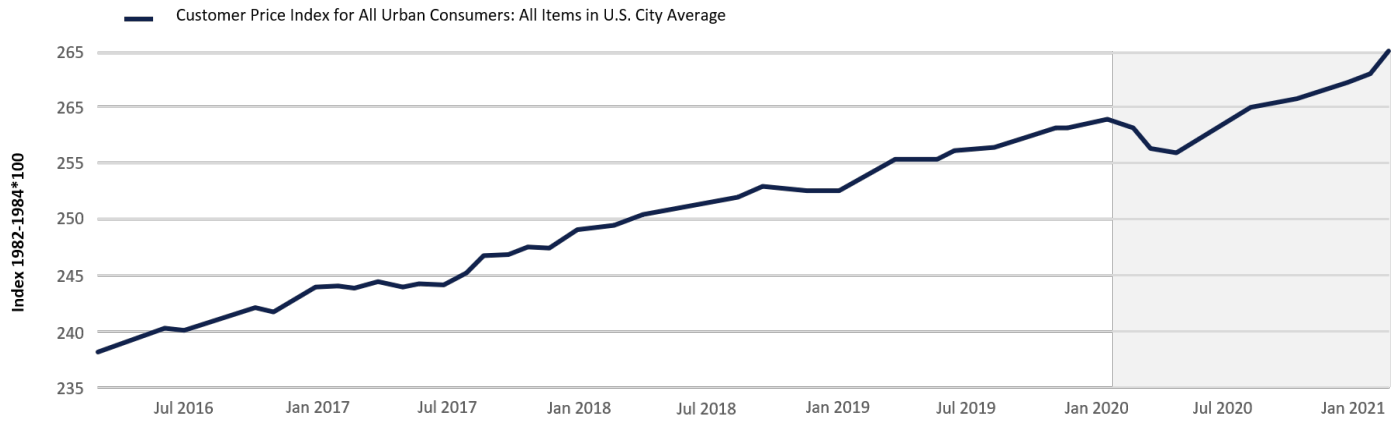
Performance Among Credit Indices

	MTD 3/31/2021 – 4/30/2021	YTD (as of 4/30/2021)	TRAILING 1 YEAR (4/30/2020 – 4/30/2021)
Credit Suisse Leveraged Loan Total Return Index (CSLLLTOT)	0.50%	2.52%	16.39%
Bloomberg Barclays US Corporate High Yield Total Return Index (LF98TRUU)	1.08%	1.94%	19.66%
Bloomberg Barclays US Aggregate Total Return Index (LBUSTRUU)	0.79%	-2.60%	-0.26%
Bloomberg Barclays Municipal Bond Index (LMBITR)	0.83%	0.48%	7.74%
Palmer Square CLO Debt Index (CLODI)	1.36%	3.11%	28.37%

Source: Bloomberg as of May 3, 2021

Chart Spotlight: Cost of Goods Steadily Increasing

Inflation expectations and news about price increases have been dominating headlines, but as the chart below shows, the change in prices has been dramatic. The Consumer Price Index for All Urban Consumers is a measure of the average monthly change in the price for goods and services and includes roughly 88% of the total population.



Source: St. Louis Federal Reserve Board

Credit Asset Classes

Private Credit	Structured Credit	High Yield
Bloomberg reports that defaults in the U.S. private credit market slid in the first quarter of 2021, to 2.4%. That's down from 3.6% in the fourth quarter and a peak of 8.1% in last year's second quarter. The positive sentiment around private credit is also seen in a survey by Preqin, in which 82% of investors surveyed planned to commit to private debt over the next 12 months, up from 77% a year ago. Additionally, the 2021 Private Credit Survey conducted by Katten found that 21% of private debt lenders believe deal flow will increase by more than 30 percent this year.	Fitch reports that $308 billion of gross institutional loans were issued in the first quarter of 2021, significantly above the previous high of $202 billion in the first quarter of 2020. The inaugural 'Fitch U.S. Leveraged Finance Market Insight Report,' shows that repricing and refinancing transactions made up 74% of first-quarter total issuance. Presently, the institutional leveraged loan market stands at $1.5 trillion. Almost 40% of leveraged loans are in the healthcare/ pharmaceutical, technology, and services/ miscellaneous sectors.	High yield outperformed, benefiting from shorter duration. CCC-rated credits led performance. Issuance volumes remained healthy, taking April and year-to-date totals to relatively high levels. Inflows were relatively modest, making the strong compression in spreads even more impressive. Bloomberg reports that after rising to 7.4% in 2020 amid COVID-related disruptions, primarily affecting the energy sector and lower rating tiers (CCC and below), the default rate is expected to drop to 3% or lower this year – a level that is in line with historical averages.

Other Related Asset Classes

Treasuries	Investment Grade Corporates	Municipals
The 10-year U.S. Treasury note yield fell 0.7 basis point to 1.63% on the last day of the month but was still up 6.6 basis points on the week, its biggest such increase since mid-March. Over the course of the month the benchmark maturity slid 11.7 basis points. The 2-year note rate was steady at 0.16%, leaving the short-dated maturity virtually unchanged for the week and month. Meanwhile the 30-year bond yield edged 0.8 basis point lower to 2.30% the last week of the month, but extended its monthly increase to 12.6 basis points.	The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.79% but was still in negative territory for the year. Investment grade spreads returned to their tightest levels in several years. Yields rose in tandem with the broader moves in rates, but investment grade corporates outperformed Treasuries. Technical dynamics were supportive, with strong inflows and relatively light new issue volumes taking the April total to $98 billion. The pace of issuance should accelerate from here, with most dealers forecasting around $135 billion to $150 billion of supply in May.	Municipal bonds sold off slightly in the last week of the month. The municipal selloff was not a surprise, as munis have been trending to very rich levels vs. taxable Treasury bonds. The likely rise in federal taxes in the near future may already be having an impact on new issue take-up. New Jersey Transportation Trust Fund Authority issued $304 million transportation system bonds that were well received. While New Jersey does have high state taxes, the potential for the federal increase in taxes may have been part of investors' incentive. High yield municipals continued with record inflows last week, as investors added another $630 million.